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S-6113

CIA/OER/S-06113-74

MEMORANDUM

Additional Runnings of the CIA Oil Model

Per our telephone conversation of 19 April 1974, I am enclosing the results of recent runnings of the "Model to Determine the Results of Alternative OPEC Prices". As suggested by the title, the thrust of the model is that higher OPEC prices produce lower production and revenues for OPEC countries, particularly when the price rise is sustained.

Our new results do not contradict this thesis in any way. In fact, varying the initial conditions of the model as you suggest makes the situation worse for OPEC. We have considered two additional scenarios: OPEC members set and maintain in 1974 dollars their revenues per barrel equal to the level prevailing in 1974 -- i.e., $8.50 -- in both scenarios. However in one case we assume initial world demand in 1974 is pretty close to what it would be in the long-run, given the $8.50 price. The disequilibrium adjustment factor is the same as in the previous model runnings.

$$\frac{\hat{W}_o}{W_o} = .9,$$

This means initial target demand is only .9 times the actual demand. Or, actual demand overshoots the level to be expected at the going price. In the second case we assume a more extreme disequilibrium, the adjustment factor being equal to .5. Initial demand way overshoots its target, and must subsequently decline. That leaves OPEC in a far worse position than before.

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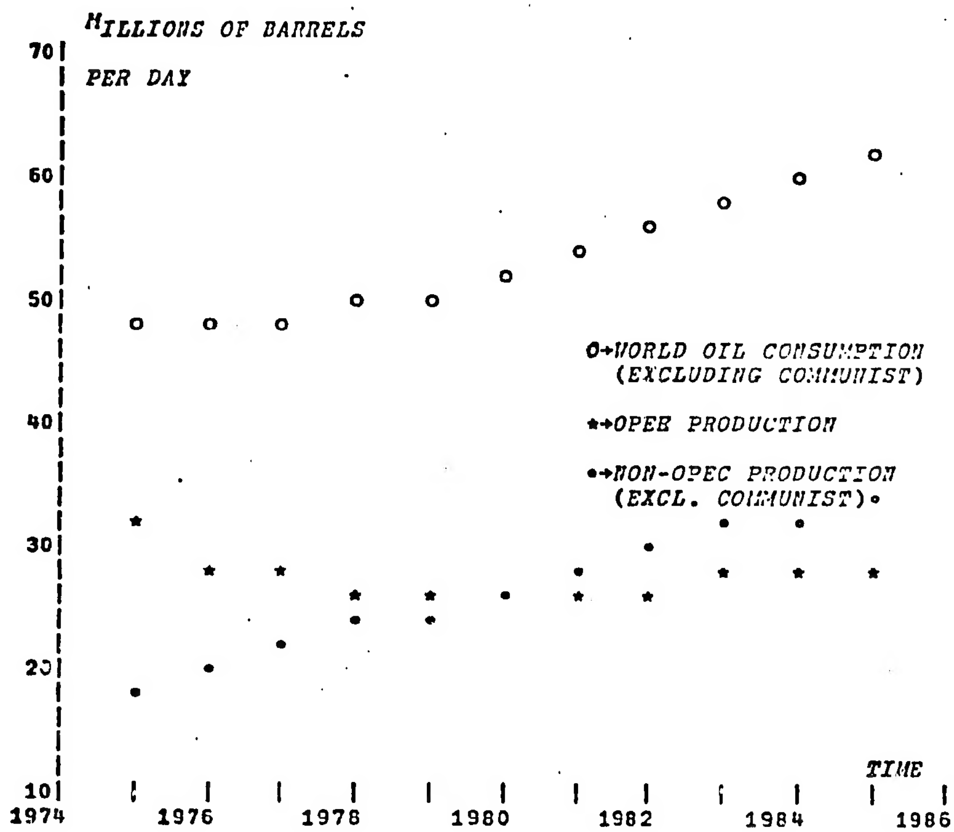
Output and Consumption Trends at $8.50/bbl.
(demand elasticity = .50)

(adjustment factor = .9)



Output and Consumption Trends at $8.50/bbl.
(demand elasticity = .50)
(adjustment factor = .5)